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*L*ayrock
*M*ines
LIMITED

ANNUAL REPORT

1972





ANNUAL MEETING

March 12, 1973

11.00 a.m.

Saskatchewan Room

Royal York Hotel

Toronto

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

DIRECTORS

J. C. BYRNE, Toronto
President and Managing Director of Discovery Mines Limited
Managing Director Avoca Mines Limited

W. A. ELSER, Calgary
Vice-President and Assistant General Manager —
Oil and Gas Division, Ashland Oil Canada Limited

H. BRODIE HICKS, Vancouver
Principal of Cannon-Hicks Associates Ltd.,
Geological and Mining Consultants

H. EARL JOUDRIE, Toronto
President and Chief Executive Officer, Ashland Oil Canada Limited

P. M. KAVANAGH, Toronto
Vice-President of Kerr Addison Mines Limited

J. J. RANKIN, Toronto
President and Managing Director of Jorex Limited

V. VAN SANT, JR., Calgary
Executive Vice-President and General Manager,
Oil and Gas Division, Ashland Oil Canada Limited

OFFICERS

J. C. BYRNE
President and Managing Director

J. K. B. BOOTH
Vice-President

D. R. MCEWEN
Secretary-Treasurer

EXECUTIVE ENGINEER

L. A. BEDNARZ

SENIOR GEOLOGIST

T. ANTONIUK

EXECUTIVE OFFICE

Suite 1011, 2200 Yonge Street, Toronto, Canada

TRANSFER AGENTS AND REGISTRARS

CROWN TRUST COMPANY, Toronto

BANKERS

ROYAL BANK OF CANADA, Bay and Temperance Branch, Toronto

AUDITORS

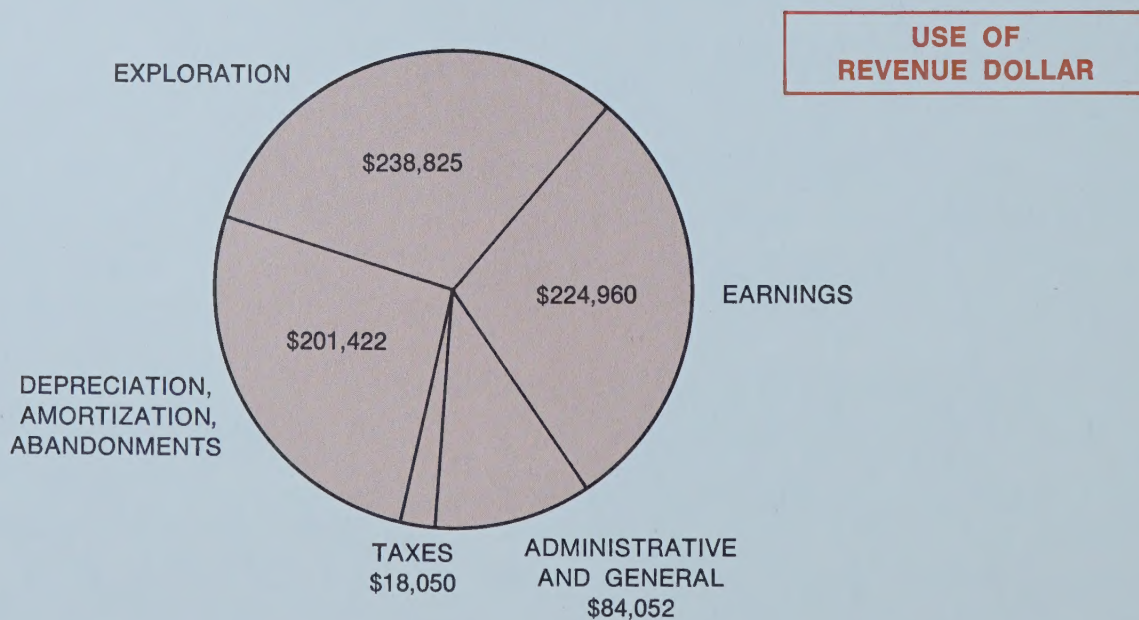
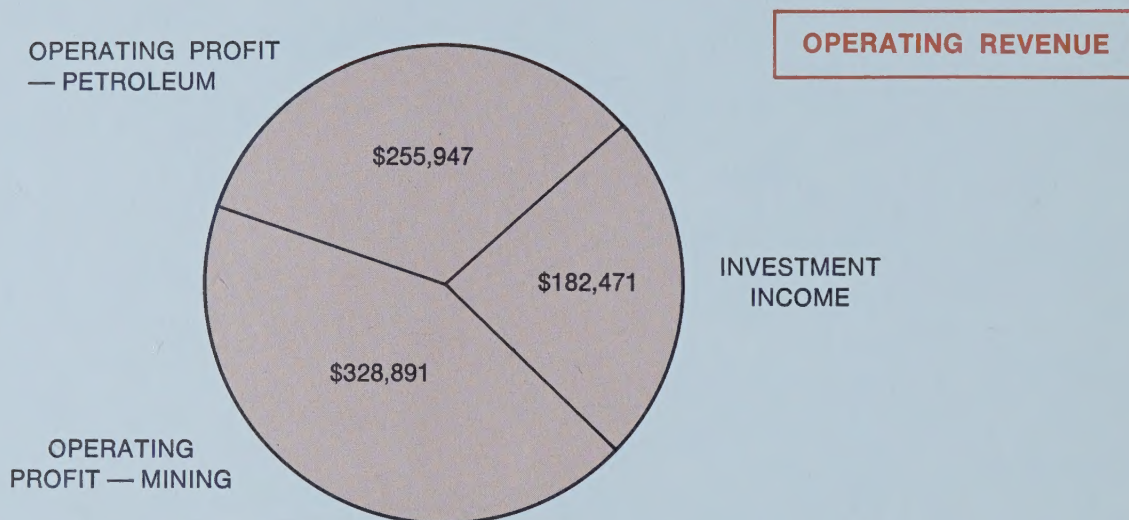
COLLINS, LOVE, EDDIS, VALIQUETTE & BARROW, Toronto

SOLICITORS

MUNGOVAN & MUNGOVAN, Toronto

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

**ANALYSIS OF 1972
OPERATING REVENUE AND DISTRIBUTION**



Directors' Report to the Shareholders

There was a significant increase in cash flow and net earnings during the past year and we can look forward to a continuing improvement in 1973 because there is a greater demand for both metals and petroleum products. A forerunner to higher prices for copper is the recent producer price hike of 2.5 cents per pound. Since the fiscal year end there have been two general price increases for crude oil aggregating 30 cents per barrel. Your Company's strong financial position will enable it to take advantage of favourable opportunities for future growth.

For the year ended October 31, 1972 cash flow was \$426,382 (9.6 cents per share), and net earnings amounted to \$224,960 (5.0 cents per share). Comparative operating revenues were little changed, however there was a substantial reduction in exploration expenditures from the record outlay of 1971.

Rayrock's 23.75 per cent interest in the Icon Sullivan Joint Venture yielded an operating profit of \$328,891. Copper production, mill throughput and operating costs continued steady. Unfortunately copper prices remained depressed with the average realized during each of the past two years being less than 50 cents a pound; the present North American producer quotation is 53 cents.

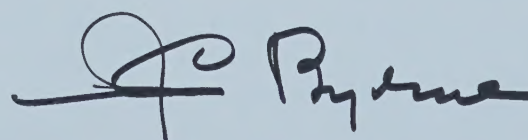
Ore reserves of the Icon Sullivan Joint Venture as at July 1, 1972 totalled 670,869 tons averaging 2.12 per cent copper. Unexpected new ore continues to turn up during the course of mining operations. Diamond drilling will begin shortly to test six target areas in near proximity to the mine workings and selected on the basis of promising geological evidence.

Production from the three waterflood units operated by Rayrock in southwestern Ontario netted your Company 137,346 barrels of crude oil. In addition, 7,660 barrels accrued from a modest interest in a productive unit in Alberta. Remaining proven and recoverable oil reserves net to Rayrock's Ontario Division are estimated at 1.4 million barrels.

Exploration activity focussed principally on Ontario, Quebec, British Columbia and the western United States. Most of Rayrock's exploration funds were allocated to participations in three syndicates and to a regional prospecting venture. Shareholders are encouraged to read the exploration review elsewhere in the Annual Report.

As at October 31, 1972 Rayrock had a working capital of \$1,679,150 together with listed securities having a market value of \$2,484,565. Approximately one third of the latter is represented by Discovery Mines Limited, in which your Company has a 44 per cent equity. Assets of Discovery include a controlling interest in Avoca Mines Limited which operates a 3,000 ton per day copper mine in the Republic of Ireland, and interests in a number of gold prospects which require a significantly higher gold price to become economically viable.

On Behalf of the Board,



President and Managing Director

Toronto, Ontario
January 23, 1973

RAYROCK MINES LIMITED

(Incorporated under the laws of Ontario)
AND ITS SUBSIDIARY

Consolidated Balance

ASSETS

	1972	1971
Current assets		
Cash	\$ 117,410	\$ 24,853
Short term deposits	1,200,000	1,200,000
Other short term investments	3,049	9,275
Accounts receivable	110,599	87,046
Prepaid expenses	1,233	1,123
Interest in net current assets of the Icon Sullivan Joint Venture ..	290,516	356,002
	<u>1,722,807</u>	<u>1,678,299</u>
Investment in other companies (note 2)	4,016,149	3,685,918
Oil properties		
Petroleum and natural gas leases, at cost (less accumulated depletion, 1972, \$566,243; 1971, \$498,922)	562,982	630,302
Non-producing leases, at cost less amounts written off	53,978	94,441
Well equipment, at cost (less accumulated depreciation, 1972, \$136,100; 1971, \$129,844)	21,083	27,340
	<u>638,043</u>	<u>752,083</u>
Mining properties		
Mining claims, at cost	27,455	25,003
Interest in non-current assets of the Icon Sullivan Joint Venture ..	249,495	308,877
Interest in unexpended funds of mining exploration syndicates ...	48,478	10,342
	<u>325,428</u>	<u>344,222</u>
Other assets		
Head office furniture, at cost (less accumulated depreciation, 1972, \$10,687; 1971, \$8,940)	6,989	3,036
Sundry accounts receivable		5,000
	<u>\$6,709,416</u>	<u>\$6,468,558</u>

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

Sheet — October 31, 1972

LIABILITIES

Current liabilities

	<u>1972</u>	<u>1971</u>
Accounts payable and accrued expenses	\$ 43,658	\$ 27,760

SHAREHOLDERS' EQUITY

Capital stock (note 4)

Authorized

5,000,000 shares of \$1 par value each

Issued

4,460,000 shares	4,460,000	4,460,000
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Contributed surplus	619,318	619,318
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Retained earnings	1,586,440	1,361,480
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	<u>6,665,758</u>	<u>6,440,798</u>
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The accompanying notes are an integral part of this financial statement.

Approved on behalf of the Board,

J. C. BYRNE, Director.

PAUL M. KAVANAGH, Director.

\$6,709,416

\$6,468,558

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

Consolidated Statement of Income

For the Year Ended October 31, 1972

	1972	1971
Crude oil and gas sales	\$ 465,646	\$ 541,272
Metal sales	1,425,798	1,403,981
	<u>\$1,891,444</u>	<u>\$1,945,253</u>
Operating profit from petroleum operations	\$ 255,947	\$ 308,941
Operating profit from mining operations	328,891	325,161
Investment income	182,471	129,560
	<u>767,309</u>	<u>763,662</u>
Less: Administrative and general expense	84,052	85,313
	<u>683,257</u>	<u>678,349</u>
Operating profit before exploration and write-offs	238,825	412,014
Exploration — mining properties	40,462	3,040
Exploration and lease costs written off — oil properties	67,321	80,050
Amortization of oil leases	6,257	8,707
Depreciation — oil well equipment	87,382	112,835
Depreciation — mining equipment		3,944
Mining claims and options abandoned		1,200
Incorporation costs of subsidiary	<u>440,247</u>	<u>621,790</u>
	243,010	56,559
Income before provision for mining tax	18,050	15,438
Provision for mining tax	<u>\$ 224,960</u>	<u>\$ 41,121</u>
Net income for the year	<u>\$ 0.05</u>	<u>\$ 0.01</u>
Earnings per share		

The accompanying notes are an integral part of this financial statement.

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

Consolidated Statement of Source and Application of Funds

For the Year Ended October 31, 1972

Source of funds	<u>1972</u>	<u>1971</u>
Current operations		
Net income for the year	\$ 224,960	\$ 41,121
Amortization of oil leases	67,321	80,050
Depreciation of equipment	93,639	121,542
Mining claims and oil leases written off	40,463	3,944
Other	758	758
	<u>426,383</u>	<u>247,415</u>
Decrease in sundry accounts receivable	5,000	200
Decrease in unexpended funds of mining exploration syndicates	2,830	2,830
	<u>431,383</u>	<u>250,445</u>
Application of funds		
Purchase of shares of other companies (net)	330,231	342,133
Share of cost of non-current assets of the Icon Sullivan Joint Venture	28,000	28,745
Acquisition of interest in mining claims	2,452	2,452
Increase in unexpended funds of mining exploration syndicates	38,136	38,136
Other	3,954	(42)
	<u>402,773</u>	<u>370,836</u>
Increase (decrease) in working capital	28,610	(120,391)
Working capital, beginning of the year	1,650,539	1,770,930
Working capital, end of the year	<u>\$1,679,149</u>	<u>\$1,650,539</u>

The accompanying notes are an integral part of this financial statement.

Consolidated Statement of Retained Earnings

For the Year Ended October 31, 1972

	<u>1972</u>	<u>1971</u>
Balance, beginning of the year	\$1,361,480	\$1,320,359
Net income for the year	224,960	41,121
Balance, end of the year	<u>\$1,586,440</u>	<u>\$1,361,480</u>

The accompanying notes are an integral part of this financial statement.

RAYROCK MINES LIMITED
AND ITS SUBSIDIARY

Notes to the Consolidated Financial Statements

October 31, 1972

1. Principles of consolidation

The consolidated financial statements include the accounts of the wholly-owned subsidiary, Rayrock Mines, Inc.

2. Investment in other companies

	1972	1971
Discovery Mines Limited — at cost		
1,212,787 shares (quoted market value \$861,000)	\$1,939,699	
1,182,787 shares (quoted market value \$769,000)		\$1,913,688
Other listed shares at cost, quoted market value \$1,623,000 (1971, \$1,168,000)	1,750,602	1,391,364
Other shares (unlisted or escrowed), debentures, etc. at cost, less amounts written off	325,848	380,866
	<u>\$4,016,149</u>	<u>\$3,685,918</u>

Because of the number of shares involved, the quoted market value of the investment in Discovery Mines Limited is not necessarily indicative of the amount which would be realized if it were to be sold.

3. Liability for income taxes

The Company's taxable income is less than the net income shown in the financial statements because certain expenditures of prior years were deductible in computing the taxable income of 1971 and 1972. Such expenditures have effectively reduced the Company's taxable income for 1971 and 1972 to zero. A modest amount of such expenditures remains to be deducted for income tax purposes from the Company's income of 1973 and subsequent years.

4. Capital stock

120,000 shares of capital stock are reserved for possible issuance to key employees under incentive stock purchase options at a price of \$2.15 per share, exercisable at any time until November, 1973.

5. Remuneration to directors and senior officers

Directors and senior officers, as defined in The Business Corporations Act (Ontario), received direct remuneration for the year ended October 31, 1972 as follows:

Directors and senior officers	\$ 52,619
Senior employees (not officers or directors)	14,580
	<u>\$ 67,199</u>

AUDITORS' REPORT

To the Shareholders,
Rayrock Mines Limited.

We have examined the consolidated balance sheet of Rayrock Mines Limited and its subsidiary as at October 31, 1972 and the consolidated statements of retained earnings, income and source and application of funds for the year ended on that date. Our examination of the financial statements of Rayrock Mines Limited included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who examined the financial statements of the subsidiary.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at October 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 12, 1973.

COLLINS, LOVE, EDDIS, VALIQUETTE & BARROW,
Chartered Accountants.

MINE PRODUCTION

ICON SULLIVAN JOINT VENTURE

All facets of the Icon Sullivan Joint Venture copper operation performed satisfactorily during the past fiscal year. Tonnage milled, copper produced, and operating profit were little changed from the previous twelve month period, as were production costs and mining duties. The average price received for copper in fiscal 1972 was 48.4 cents per pound as compared to 49.7 cents in fiscal 1971.

A total of 207,246 dry tons of ore averaging 3.16 per cent copper was custom milled at the Canadian Merrill concentrator situated 44 miles from the mine site. The tonnage processed by the mine's preconcentrator, however, was 361,890 dry tons of which some 50 per cent was rejected as waste. Augmenting the upgraded product was a modest tonnage of high grade direct shipping ore which bypassed the pre-milling process. Recovery in the preconcentrator was 94 per cent while mill recoveries averaged 98 per cent. Concentrate grade was 27 per cent copper and output 23,824 dry tons.

The advantages of the sink-float plant, as the preconcentrator is often called, are threefold — (a) substantial savings are realized in trucking costs per pound copper produced; (b) relatively

low grade material that would not otherwise be classified as ore can often be economically extracted, thus resourcefully extending the mine life; (c) the waste reject has served as a major source of stope backfill.

The Icon Sullivan Joint Venture will shortly initiate an exploratory diamond drill program on the mine lease, and no less than six targets, all located in near proximity to the mine workings, will be tested. The fact that new ore continues to be discovered during the course of underground development lends optimism that the surfact drilling will be productive. Copper production thus far has exceeded by over 12 million pounds that represented in the preproduction ore reserve estimate of 756,400 tons of 3.6 per cent. Even after 5.5 years of operation the Joint Venture's remaining known recoverable reserves can be expected to yield at least 22 million pounds of copper in concentrate. Monthly copper output averages one million pounds.

Rayrock's interest in the Icon Sullivan Joint Venture is 23.75 per cent. The other participants are Kerr Addison Mines, Newmont Mining Corporation of Canada, Gunnex Limited (now a wholly owned subsidiary of Barymin Explorations), and Troop Exploration and Development.

PETROLEUM PRODUCTION

Crude oil and gas sales in fiscal 1972 totalled \$465,646 as compared to \$541,272 for the previous twelve month period. Operating profit of \$255,947 was lower than the \$308,941 recorded in fiscal 1971, while net crude oil production accruing to Rayrock also registered a reduction from 163,513 barrels to 145,006 barrels.

Importantly, two general crude oil price increases aggregating 30 cents per barrel have occurred since last November and will, in part, alleviate the effect on future oil income of gradual declining reservoir yields under secondary recovery.

Your Company operates three oil producing units in southwestern Ontario — a wholly owned parcel in the Rodney Field, a 40 per cent interest in the R & R Unit of the same field, and a 10 per cent equity in the Gobles Field. Current productivity of the three waterflood operations in Ontario is 620 barrels oil per day. Rayrock's Ontario Petroleum Division is capably managed by A. E. MacKay Petroleum Limited, Clarkson, Ontario.

An interest long held in producing acreage in the Province of Alberta continues to yield modest income, which totalled \$17,165 in 1972.

MINERAL EXPLORATION

ICON SYNDICATE

A considerable portion of Icon's 1972 exploration budget was employed in a program of airborne geophysics and surface follow-up of a 1,200 square mile block of ground in north-eastern Ontario. The ground coverage is as yet incomplete and additional work is scheduled for 1973.

A thirty square mile area near Horwood Lake, Ontario, was prospected during the past year. Efforts were unproductive.

Programs in Quebec included drilling of an optioned base metal prospect near Val d'Or, and completion of a rather extensive project in the Chibougamau region. Reference the latter, which was launched early in 1971, testing of the prominent airborne responses returned only barren sulphides and graphite.

The Syndicate's attention in 1973 will focus on exploration of a geologically interesting belt in northwestern Ontario. A large area will be subject to an airborne geophysical survey to be completed during the winter. In addition, two base metal prospects in the Val d'Or district are to be explored.

Rayrock has participated in the Icon Syndicate since its inception in 1960, and will again provide 25 per cent of its exploration funds for 1973. The other participants are Kerr Addison, Newmont Mining Corporation of Canada, and Gunnex, now a wholly owned subsidiary of Barymin Explorations. Manager of Icon is Mr. A. J. Troop, P.Eng.

CORDEX SYNDICATE

Investigation of precious metal prospects comprised most of the 1972 efforts of the Cordex Syndicate. No less than 26 such prospects were examined, eight of which were subjected to advanced stages of exploration. More than 11 other individual on-site evaluations involving base metals, tungsten, tin and fluorspar mineralization were reported. The majority of the Syndicate's \$300,000 minimum annual budget was deployed

in Nevada and the remainder in the states of California, Utah, Montana and Idaho.

It may be recalled that a 1971 program of drilling on a gold prospect in northern Nevada outlined two low grade gold occurrences extractable by open pit mining. Last September an American company was granted a working option which, if exercised by July 1, 1973, would result in a cash payment of \$200,000 to the Syndicate interests, and a commitment by the optionee to develop the property for production under a profit sharing arrangement.

Early in 1972 Cordex optioned adjoining property to that which hosts the aforementioned gold deposits. Geological mapping and ground magnetics were followed by rotary drilling, the gold assays from which were disappointing. However, the tungsten potential of this particular ground appears promising as indicated by recent mapping of former open pit exposures and of all accessible underground workings. Expressions of interest in conducting a possible tungsten exploration program have been received from a number of companies.

Encouraged in each case by widespread gold mineralization found by prospecting and surface sampling, drilling was authorized for three Nevada prospects. In each instance the tenor of values cored was generally quite low. Only one of the projects though, has been abandoned. Elsewhere in the State drilling of an optioned silver property yielded sub-economic returns prompting the agreement to be terminated.

At year end the Cordex Syndicate was aggressively pursuing exploration of a large group of optioned claims in Nevada assembled for their silver-gold potential. The preliminary field work involves rock geochemistry, bulldozer trenching, and sampling of accessible mine workings.

The Syndicate is a participant in two separate joint venture projects which will likely involve drill tests in 1973.

Each contributing 25 per cent of the exploration funds for Cordex are American subsidiaries of the following Canadian companies, namely Rayrock Mines, International Mogul Mines, Lacanex Mining Company, and Siscoe Metals of

RAYROCK MINES LIMITED

AND ITS SUBSIDIARY

Ontario, a wholly owned division of United Siscoe Mines.

Mr. J. S. Livermore, P.Eng., and Mr. P. S. Galli, P.Eng., direct the Cordex programs.

CALTOR SYNDICATE

Exploration programs were conducted in Ontario, British Columbia and the Yukon by the Caltor Syndicate during 1972, its third year of existence.

In northeastern Ontario two base metal prospects were optioned. Subsequent field work, including diamond drilling on one of the properties, did not disclose mineralization of economic importance. Similarly, drill results proved disappointing from a major program carried out on a large claim block in the Thunder Bay district.

Of five regions in British Columbia selected for examination four warrant ground follow-up in 1973. Geochemical soil and silt sampling was employed extensively as an effective exploration tool.

Of three projects supported in the Yukon two have been abandoned while the third may receive additional attention.

Funds for Caltor have been provided equally by each of Ashland Oil Canada, Canadian Industrial Gas & Oil, and Rayrock Mines, the latter Company supervising the field activities. Canadian Industrial Gas & Oil will not continue in the Syndicate beyond the 1972 calendar year due to their decision to reduce drastically their exposure to mineral exploration.

Manager of Caltor is Mr. T. Antoniuk, P.Eng.

WOLF LAKE JOINT VENTURE

During the 1972 summer field season the Wolf Lake Joint Venture continued exploration, initiated in the previous year, of a large region in the southern Yukon. Finances for the 1972 project were provided by Rayrock Mines, Ashland Oil Canada, and the Caltor Syndicate.

Some 2,500 soil, rock, and stream sediment samples were taken for geochemical analysis. The common types of mineral occurrences encountered

were tungsten-bearing skarns and lead-zinc veins; however, none exhibited sufficient grade or tonnage potential to be of economic consequence. In addition, evidence of scattered and minor copper-molybdenum mineralization associated with favourable geology prompted the Joint Venture to conduct geophysics over the area of interest. Of two anomalies indicated, the larger is almost entirely covered by deep overburden and, while drilling has been recommended to probe for the possibility of a mineralized porphyry body, it has been decided to defer this test for an indefinite period.

Assessment work credits have been filed on a total of 121 claims to maintain them in good standing for several years.

JOREX LIMITED

The largest individual exploration program conducted by Jorex in 1972 was a joint venture with Conwest Explorations on a fluorite prospect in northeastern British Columbia. Several of the many mineral occurrences discovered during the previous field season were further investigated by drilling. While indicated grade of some of the deposits was good, the individual occurrences proved to be modest in size. Subsequent economic studies suggested that the discoveries were not viable propositions at prevailing fluorspar prices.

Also in the Province of British Columbia two districts were prospected and two other areas were the subject of claim staking by Jorex following results from airborne surveys.

Exploration funds were expended on single projects in each of Yukon and Quebec, and for three ventures in Ontario. Participation has been taken in a regional program involving airborne geophysics over a large area in eastern Newfoundland.

Negotiations have been taking place between Jorex and two other companies concerning a possible major exploration effort in Manitoba and Saskatchewan.

Rayrock owns 200,000 shares of Jorex representing a 7.9 per cent equity after giving effect to a Jorex rights offering in 1972 which netted Jorex just over one million dollars.

RAYROCK MINES LIMITED

AND ITS SUBSIDIARY

